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THE IMPACT OF TRADE LIBERALISATION ON THE NIGERIAN LABOUR MARKET

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Abstract

This study focused on the impact of trade liberalisation on the Nigerian labour market. The major objective was to find out if trade openness has had positive or negative impact on the Nigerian labour market. Secondary data sourced from Statistical Bulletin of the Central Bank of Nigeria (CBN) and the Nigerian Bureau of Statistics was employed. The econometric model was analysed using Microfit 4.1 for Windows. The results showed that trade liberalisation has had negative impact on the Nigerian labour market. Nigeria became a dumping ground for cheap products from industrialised countries like China which adversely affected domestic manufacturing companies with many of them closing down. To avert this situation, strategies have been advanced for the production of local goods that are labour intensive both for domestic consumption/export and import capital goods like machineries to promote local production. Furthermore, the study recommends that different degree of liberalisation for various sectors be applied so as to discourage dumping, encourage local production and hence increase rate of employment.

Keywords: Trade Liberalisation, Employment, Labour market, Production, Nigeria

INTRODUCTION

Trade liberalization loosely defined is a move towards freer trade between two or more countries and entails removal of import quotas and other quantitative restrictions. It also involves the abolition or reduction of import tariff rates, removal of export taxes, removal of protection for infant industries, elimination of non-tariff barriers and devaluation of the local currency (Obadan and Obioma 1999). The literature is rich as to the benefits or otherwise that can accrue to a country as a result of liberalizing trade; especially for developing economies like Nigeria with abundant labour supply. Debates on the economic rationale for trade liberalization especially as it affects developing countries have been extensive. This has come on the heel of poverty increase, mass unemployment, underemployment and deteriorating labour conditions in developing countries that has liberalized their trade policies.

In 1986, Nigeria adopted the Structural Adjustment Programme in order to resolve the disequilibrium of their balance of payment sheet and also to create employment and promote consumption of locally manufactured goods. One of the reforms of this programme was trade liberalization. Needless to say that the desired economic effect was not achieved because poor Nigerians became poorer and unskilled labourers lost their jobs. Liberalization made easy the flow of goods and capital across borders but NOT the flow of labour in which developing countries like Nigeria have in abundance.

The main objective of this study is to assess the impact of trade liberalization on the labour market. In trying to establish this impact or relationship, simple statistical and econometric analyses would be carried out using secondary data.

REVIEW OF RELATED LITERATURE

During the last three decades, trade liberalization was welcomed with open arms by several developed and developing countries. This is so because of the assumed benefits that could accrue in the areas of substantial wage increase and relative labour demand. According to Ajayi (2001), "the appeal of a more open economy is based on simple but powerful premise, that is, economic integration will improve economic performance. Additionally, globalization and trade liberalization will offer new opportunities such as expanded markets and the acquisition of new technologies and ideas all of which can yield not only increased productivity and employment but also higher standards of living". However, Khor (2001) observed that the conventional view that trade liberalization is necessary and has automatic and generally positive effects for development is being challenged empirically and analytically.

According to Mrabet and Lanouar (2012), several studies show a positive link between international trade and level of wages and employment. This leads to the general conclusion that liberalization have undoubtedly contributed to the increase of wage dispersion and unemployment. Wood (1999) finds an increase in the demand of unskilled workers in South Korea, Taiwan and Singapore after trade liberalization. Moreover, recent literature supports the idea that following liberalization, technological change can be induced to affect the labour market positively.

Available empirical work leads us to think that openness is accompanied by reduction in wages and employment in most developing countries, Nigeria inclusive. According to Mrabet and Lanouar (2012), the first work that mentioned the possible increase of the wage gap between skilled and unskilled labour in the case of developing countries is the work of Wood (1997). He opines that the experience of the East Asian countries during the 1960 and 1970 decades support the traditional theory prediction, following that the gap of wages between skilled and unskilled labour, for countries characterized by high degree of openness tends to become lower. Since the 1980s, Latin American countries have experienced the same process of trade liberalization than East Asian countries. The effect of their trade liberalization on wages shows an opposite result.

According to Blackett (2007), it is of particular importance to developing countries, whose often abundant factor of production; its human supply is restricted from moving across borders or forced to move under degrading inhuman conditions. This vital movement of persons is often an overlooked element of the discussions.

Developing Countries' Experience

The above observations notwithstanding, the developing countries have since the 1980s undertaken widespread and rapid trade liberalization, essentially not in the context of multilateral trade negations, but rather in response to the conditionalities attached to the programmes that they were coerced to implement by the Breton Woods Institutions.

The liberalization process in many developing countries like Nigeria occurred without prior preparations to ensure that domestic industries were ready to face exposure to international competition. A sudden removal of trade protection, together with devaluation of the currency, removal of subsidies and hikes in interest rates tended to lower capacity utilization in industrial base. Thus, according to Obadan (2008), many poor countries have found that trade liberalization produced negative results for their economies or has marginalized them. The worst hit being the labour market.

While import propensity of most developing countries increased sharply as a result of liberalization, exports failed to meet up the pace. Infact, trade liberalization has been accompanied by de-industrialization in many developing countries and where export expanded, it was not always accompanied by the expanse of export capacity. The end result of de-industrialization is loss in manpower need, loss of job opportunities and absolute disregard for minimum wage law by surviving industries.

Williamson (2003) of the "Washington Consensus" concedes that in some cases one can criticize the way liberalizations were implemented. For example, trade liberalization focused exclusively on import liberalization without sufficient attention to improving the export market assesses. Thus, trade liberalization failed in many developing countries since they were undertaken under pressure.

In the light of the foregoing, one important observation by the UNCTAD, Trade Development Report, 1999 is pertinent. If trade liberalization is carried out in an inappropriate manner, the impact on the labour market is usually devastating. The Theorem of Hecksher-Ohlin states that a country will tend to export goods that are relatively intensive in the abundant factor.

One thing that is important and common with several middle developing economies such as Nigeria, Cote d'voire and Zambia in the late 1980s and early 1990s was the undertaken of several structural reforms, particularly trade liberalization reforms. Many studies have tried to assess the impact of these reforms on the labour market of these countries. The Mexican experience in the mid-1980s, Hanson and Harrison (1999) show that reduction in tariff protection unreasonably affected low-skilled industries, contrary to what one would expect for a developing country.

According to Soludo (the former Governor, Central Bank of Nigeria) and Orji (2003), reduction in import tariff over the years had a negative impact on the Nigerian economy especially in the area of revenue generation for government. When tariffs are reduced, revenue from import tax is reduced and hence government's ability to render services. Also, the composition of effective demand shifts towards imports; this is triggered by the cheapening of imported goods and expansion of domestic credit supply.

One of the major goals of any economy is the achievement of full employment. Attainment of this macroeconomic objective has remained an issue that continues to receive attention in developing countries particularly in Africa where there is high level of poverty and increasing unemployment. Obadan's (2008) examination of the impact of SAP on the Nigerian Labour market concludes that the close down of business enterprises and public sector retrenchment actually worsened the employment situation which the pre-SAP economic recession created.

One of the least controversial lessons of neoclassical economies is that free trade increases aggregate welfare by efficiently allocating resources within countries. However, free trade also generates distributional conflicts; there would be winners and losers. The argument supporting aggregate welfare gains from trade are typically based on long-run theories where only an initial state (typically autarky) and a final state (free or less-distorted trade) are considered, with no predictions of what happens in between. Perfect factor mobility is usually assumed and less than full employment or unemployment is seldom modeled.

Nigeria's Experience with trade liberalization and Labour Market

Trade liberalization was one of the hallmarks of the Structural Adjustment Programme (SAP) in Nigeria and it entailed import liberalization, market determination of exchange rates, free marketing of export commodities, employment generation and rapid industrialization. The implementation of the policy acquired greater significance in the 1990s with the conclusion of the Uruguay Round (UR) of multilateral negotiations and the emergence of the World Trade Organisation (WTO). In Nigeria, the data provided by the Central Bank shows that major current and capital account transactions in the economy have been substantially liberalized.

The liberalization policy has had a devastating effect on local production and employment and has discouraged further investment in Nigeria. Indeed, trade liberalization has been accompanied by de-industrialization in Nigeria. Both the Manufacturing Association of Nigeria (MAN) and the Nigerian Labour Congress (NLC) have drawn attention to a number of industries and firms that have gone under as a result of trade liberalization. In the Guardian Newspaper of April, 27, 2008, the Group Managing Director of Chanrai Group of Companies spoke on how the importation of finished textile products to Nigeria led to the closure of his textile company in Nigeria named Afprint which started operation in 1966. This led to over 3000 employees being thrown into the labour market. In the same vein, several companies like Eleganza, Doyin Groups, Toyo glass, Arewa Textile, Calcemco, NIFOR just to mention a few closed down, sending thousands of workers home. Poor countries, Nigeria inclusive do not have the wherewithal to compete internationally whether as it concerns trade or labour conditions. The vital thing lacking in Nigeria is a conducive environment, security and infrastructural support to boost production in the private real sector (Obadan, 2008).

According to Obadan (2008), the near full throttle liberalization of trade embarked upon by Nigeria has given rise to massive inflows of all manner of finished products from industrialized countries of the West and Asia, including fairly used products like textile, footwear, automobiles, motor cycles, refrigerators, air conditioners, televisions, radios, blenders, etc; substandard and fake products like pharmaceuticals, cosmetics, toiletries, electrical materials, foods, wines, etc. Some of the goods apparently dumped on the Nigerian market are goods that can be produced or are being produced in Nigeria.

One of the major limitation or disadvantage of this situation is that, infant industries and small scale struggling businesses find it difficult and to say the least, impossible to compete in the world market with these products. For example, the unit cost of producing a stick of candle in Nigeria is about 150% the price of an imported candle stick from China. Now, how can the candle factories in Nigeria compete for market or even strive to export? How would the millions of skilled and unskilled labourers be employed if factories are closing down for inability to compete with foreign products? These are few of the questions begging for answers.

Labour And Minimum Wage Reforms

Minimum wages, which relate to some legal restrictions on the lowest wage rates payable by employers to their workers, have been influencing wages in Nigeria since 1955, courtesy of the Wages Board Act of that year. From 1955, successive governments have been setting minimum wages for some specific occupations/trades or for all sorts of occupations/trades especially the ones that can be considered formal. This issue of minimum wage led many small scale private companies in Nigeria who were still struggling to break-even to drastically reduce their manpower need. After a few years of compliance, many individuals were ready to work for less than the minimum wage in order to survive or just be employed.

A cursory look at the different wage increase regime shows that prior to the implementation of the SAP policy, in 1974, minimum wage stood at N60 (then $100) per month, and later in 1981 it was increased to N125 (then $209). After SAP in 1991, minimum wage increased to N250 (then $31), in 1998 it was increased to N3000 (then $35) and finally in year 2000 to N5,500 (then $55). As at March 2015, though salary increased, the minimum wage of N18,500 is worth less than $100 per month. The high unemployment rate in Nigeria has made it impossible for workers to even fight for their rights when it comes to wages because of fear of losing their jobs. Severally, we have heard of individuals losing their jobs because they were at the fore front of demanding for their employment benefits or rights.

METHODOLOGY

This study would assess the impact of liberalization on the labour market. The methodology adopted is the use of secondary data collected from the Central Bank of Nigeria Statistical Bulletin, National Bureau of Statistics and Online Journals. The model would be specified and the classical Ordinary Least Square (OLS) would be adopted in the regression analyses. Pearson's correlation matrix would also be employed to establish relationships among variables, if any.

Proposed Model

The variables of interest would be Employment Rate, Openness, Import Duties, Export Duties and Exchange rate. Openness is calculated as (Import + Export/GDP) according to the measurement tool proffered by Sachs and Warner (1995).

The model is specified as thus:

EMPR = f(OPN, IMD, EXP, EXR) …………………………………..eqn(1)

Where:

EMPR = Employment Rate

OPN = Degree of Openness

IMD = Import duties

EXD = Export Duties

EXR = Exchange rate

Equation (1) can be transformed into an econometric model as follows:

$EMPR = \beta_0 + \beta_1 OPN + \beta_2 IMD + \beta_3 EXD + \beta_4 EXR + \mu_t$

Where:

β_0 = the constant or intercept of the slope of the regression equation.

B_1 to β_4 are the parameters or coefficients of the model.

μ_t is the stochastic error term.

A'priori Expectations

The a'priori expectation of signs which indicates the relationship between the dependent and independent variables are as follows:

$\beta_1 > 0$ This signifies a positive relationship. That is the more liberalized or open an economy the higher the employment rate.

$\beta_2 < 0$ This signifies a negative relationship. That is, the lower the tariff or duties charged on imports the higher would be the level of employment. This is because of the assumption that free trade encourages domestic production and hence employment.

$\beta_3 < 0$ This signifies a negative relationship. When there is increase in Export Duties, the rate of employment decreases because trade is hindered and hence production falls.

$\beta_4 < 0$ This signifies a negative relationship. When exchange rate is high, it decreases the ability of the industries to import capital intensive goods (Machines and equipments) and hence reduces their ability to employ more staff since production will fall.

Data Analyses Approach

As earlier stated, the method of Ordinary Least Square (OLS) would be employed in the analysis. This assumes among other things that the explanatory variables are exogenous. The coefficient of determination of R^2 will measure the goodness-of-fit of the equation. The F-statistic will be computed to test jointly the overall statistical significance of the entire model while the t-ratios will indicate the level of significance.

ANALYSIS & RESULTS

$$\begin{array}{llllll} EMPR = & 53.25 & + 0.096IMD & + 0.224EXD & - 0.110OPN & - 0.018EXR \\ & (6.025) & (0.819) & (1.672) & (-3.733) & (-4.444) \end{array}$$

$R^2 = 0.82$ Adj. $R^2 = 0.77$ F-Stat. 20.59 SEE = 8.74

T-ratios are in parenthesis ( )

From the above result, adjusted R^2 is 0.77 which means that the variation in the dependent variable is explained up to 77% by the independent variables. The F-Statistic which shows the overall goodness-of-fit of the model is significant at 1%.

The variables Import Duties (IMD) and Export Duties (EXD) show positive impact on Employment Rate while Exchange Rate (EXR) and Degree of Openness (OPN) show negative relationship. Exchange Rate, conformed to a'priori expectation with respect to sign while Export Duties, Degree of Openness (OPN) and Import Duties did not conform to a'priori expectation.

Import Duties and Export Duties with t-ratios of 0.819 and 1.672 respectively show that they are not significant at 5%. Exchange rate has a negative sign with a coefficient of -0.018, a t-ratio of -4.444 and was significant at 5%. Indicating that the higher the rate of exchange the lower the rate of employment. That is, for every 1% increase in Exchange Rate, Employment will decrease by about 2%. This is because a higher exchange rate will discourage domestic industries from importing the input especially capital goods like machines, tractors even expertise needed in the production processes. Openness is also negatively signed with a coefficient of -0.11 and t-ratio of -3.73. This indicates that for every 1% increase in the degree of openness, employment rate will decrease by 11 %.

These findings conform to some existing literature especially for and from developing countries where trade liberalization has being found to impinge negatively on the rate of employment.

Table 1. Pearson's Correlation Matrix

	Employment Rate	Import Duties	Export Duties	Degree of Openness	Exchange Rate
Employment Rate	1				
Import Duties	0.735	1			
Export Duties	0.128	0.015	1		
Openness	-0.604	0.406	0.113	1	
Exchange Rate	-0.823	-0.276	0.100	-0.054	1

From the above table it can be seen that there is a high positive correlation between Import duties and Employment Rate signifying that the higher the import duties charged, the higher would be the level of employment. There is a high negative correlation between Employment Rate and Exchange Rate with a coefficient of -0.823. Degree of Openness and Employment Rate shows also a negative correlation but with a coefficient of 0.604. Openness and Import Duties are positively correlated with a coefficient of 0.406. The relationship between Export Duties and Employment is low but positive with a coefficient of 0.128.

POLICY IMPLICATIONS

With reference to the findings from both the OLS result and the Pearson's correlation matrix, the following statements can be inferred. Employment rate is not significantly affected by Import Duties even though there exist a high positive correlation. The impact is insignificant from the findings of this study and this correlates with the situation prevailing in the Nigerian economy. Though the Nigerian economy is liberalized, unemployment still remains a major problem with over 50% of the labour force unemployed. The problems of the labour market may have stemmed from the liberalization policies because the lack of infrastructural facilities prevents locally manufactured goods from competing with imported cheaper products that flood the market.

If Nigeria cannot revamp her industries by giving them incentives and enabling environment, then liberalization will result in indigenous companies closing down and sending workers home. Sometimes, when workers are not disengaged, the labour laws on minimum wage are compromised by offering lower pay in exchange for standard services.

Some literatures have it that liberalization will improve labour conditions as labour will become competitive, but empirical findings prove that not only will liberalization worsen labour conditions, it would also deprive the masses of opportunities to work.

CONCLUSION

In concluding this study, liberalization though seen as a catalyst to speed up economy processes in Nigeria, has led to the mass retrenchment of workers in the private sector. Improved labour condition which according to literature is one of the gains of liberalization have not being realized in Nigeria. Rather, labour market conditions worsened because individuals rather than stay unemployed have opted to work for less pay (below stipulated minimum wage). Liberalization in Nigeria opened the gates for flooding of goods from other industrialized countries of the West and Asia at the expense of locally manufactured goods. As Obadan (2008) observed, Nigeria and many African countries have been moving along the path of openness economically and they are striving to make progress on the path of enhancing their economic integration into the world economy. But they continue to confront protectionism in the rich countries. These countries according to Obadan maintain barriers in exactly the areas where poor countries have comparative advantage i.e. agriculture and labour-intensive goods.

RECOMMENDATIONS

Given the findings of this work, liberalization has been hampering employment in Nigeria. The variables that gave these directions are Exchange Rates and Openness.

1. The Federal government should strive to increase the value of the Naira as this will reduce the rate at which the naira is exchanged for the Dollar. It would profitable for the small companies to import machines and other equipments to boost local production.
2. Seeing that openness is only beneficial when there is a balanced 'give and take', the provision of infrastructural facilities in Nigeria would ease the problem of domestic production, thereby increasing exports to match with imports.
3. Lastly, a regulated economic liberalization is recommended as this will protect the nation from being a dumping ground for cheap Western and Asian products at the expense of our local industries. That is, high tariffs should be placed on goods that can be produced locally and lower tariffs for capital goods like machines and equipments.

LIMITATIONS & SCOPE FOR FURTHER STUDIES

This study focused only on liberalization as it affects trade openness of the Nigerian economy and its impact on the labour market especially in increasing unemployment. There are other aspects of trade liberalization not captured in this study, hence caution should be taken in making generalization with the results. For further studies, the variables used in this study can be expanded to include other monetary and fiscal policy variables like interest rate and money supply.

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